



IOWA GENERAL ASSEMBLY  
**LEGISLATIVE SERVICES AGENCY**

DENNIS C. PROUTY, DIRECTOR  
 IOWA STATE CAPITOL  
 DES MOINES, IA 50319  
 515.281.3566  
 Fax: 515.281.8027  
[dennis.prouty@legis.state.ia.us](mailto:dennis.prouty@legis.state.ia.us)

**DIVISIONS**

LEGAL SERVICES  
 RICHARD L. JOHNSON

FISCAL SERVICES  
 HOLLY M. LYONS

COMPUTER SERVICES  
 GLEN P. DICKINSON

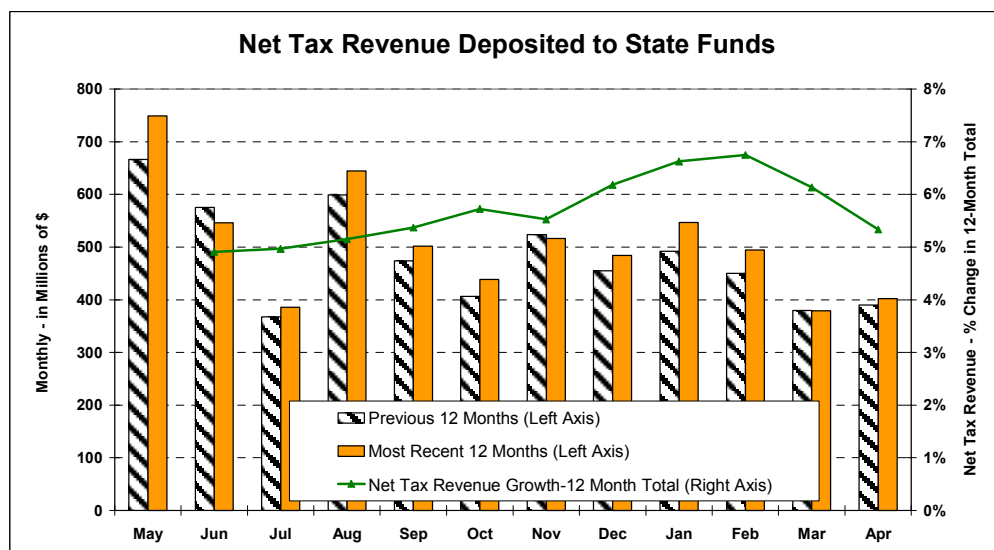
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

**MEMORANDUM**

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Jeff Robinson  
 Shawn Snyder  
 DATE: May 16, 2007

**Twelve-month Total Net Tax Receipts Through April 30, 2007**

The attached spreadsheet presents net State tax receipts for the 12-month period ending April 2007 with comparisons to the previous 12 months. April 2007 to April 2006 comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



**Month of April Comparison**

April net tax receipts totaled \$402.1 million, an increase of \$12.6 million (3.2%) compared to April 2006. Major taxes contributing to the month's change include:

- Sales/use tax (negative \$7.9 million, 7.9%) – An increase in the transfer out of local option sales tax negatively impacted sales/use tax revenue by \$5.0 to \$6.0 million. Use tax deposited to the Road Use Tax Fund decreased \$1.2 million (- 6.3%).
- Individual income (negative \$6.1 million, 3.2%) – Gross receipts were flat for the month while refunds were \$6.3 million higher.

- Corporate income tax (positive \$17.9 million, 63.3%) – April gross corporate tax receipts increased \$15.4 million for the month and corporate tax refunds decreased. A large deposit occurred during April related to a tax settlement for previous tax years.
- Fuel tax (positive \$1.3 million, 3.9%) – Gross revenue was up for the month and refunded revenue decreased.
- Cigarette & Tobacco taxes (positive \$4.1 million, 60.3%) – The cigarette tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

## **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending April 2007, net revenue from all taxes deposited to State funds totaled \$6.086 billion, an increase of \$308.1 million (5.3%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual income tax (positive \$174.0 million, 7.4%) – Growth has generally been strong, highlighted by a big jump in early December and a flat April. The latest 12 months are boosted by changes to the State's income tax withholding tables that started April 2005 and ended April 2007.
- Corporate tax (positive \$114.4 million, 52.1%) – Corporate tax has shown strong growth since 2003, with a significant up-tick over the last 11 months.
- Sales/use tax (positive \$20.3 million, 1.0%) – The rate of sales/use tax growth has been falling steadily in recent months. Gross sales/use tax deposited to the Road Use Tax Fund and to the State General Fund each decreased 8 of the last 13 months when compared to the same month the previous year.
- Motor fuel tax (negative \$43.1 million, 8.9%) – The large decrease is due to an unusual \$38.0 million fuel tax deposit that occurred during June/July 2005. That deposit was likely coded as fuel tax incorrectly. Adjusting for that deposit, the year-over-year fuel tax decrease is approximately \$5.0 million.
- Gambling tax (positive \$37.9 million, 15.2%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.

## **Tax Spotlight – Franchise (bank) Tax and Credit Union Tax**

The taxation of banks and financial institutions in Iowa dates back to at least the 1851 Code of Iowa. Prior to HF 1294 (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

The current franchise tax (Chapter 422, Division V, Code of Iowa) is imposed on the net income of state banks, national banking associations, trust companies, federal and state chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board, and production credit associations at a rate of 5.0%. An alternative minimum tax may be applicable to financial institutions at an effective rate of 3.0%. Credit unions are subject to a different tax discussed below.

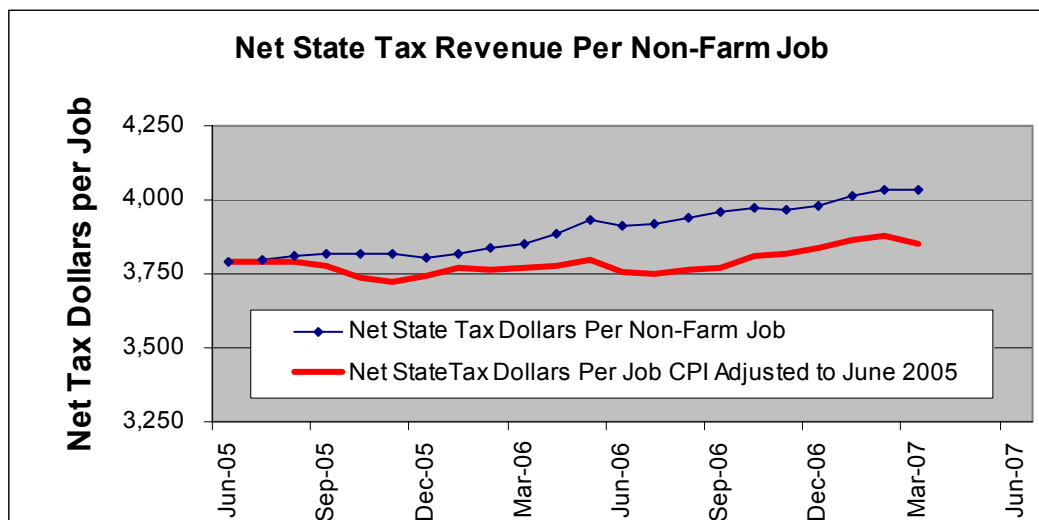
The Iowa franchise tax enacted in 1970 provided for rates ranging from 5.0% to 8.0% of net income. The franchise tax rate was reduced to a flat 5.0% in 1980. Prior to 1995, financial institutions could transfer income-producing assets to non-bank subsidiaries reducing the franchise tax owed. Legislation was enacted beginning with tax year 1995 that prohibits the deduction of those types of transfers.

Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. The estimated payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund. Section 15F.204(8b), Code of Iowa, appropriates \$7.0 million of franchise tax receipts annually to the Community Attraction and Tourism Fund through FY 2010. The appropriation occurs after the money is deposited to the State General Fund so the franchise tax allocation is essentially a General Fund appropriation.

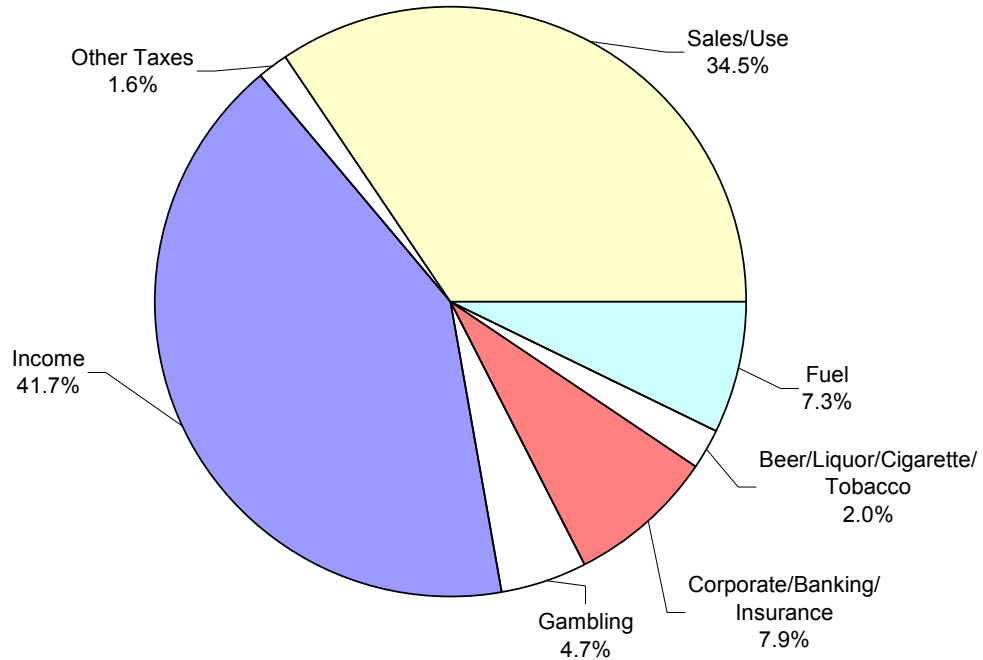
Credit Unions are taxed at a rate of five mills (0.5%) of "legal and special reserves" (see Sections 533.24 and 533.17, Code of Iowa). The tax is imposed by the Board of Supervisors and the revenue from the tax is divided between the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited to the General Fund.

### Tax Revenue and Employment

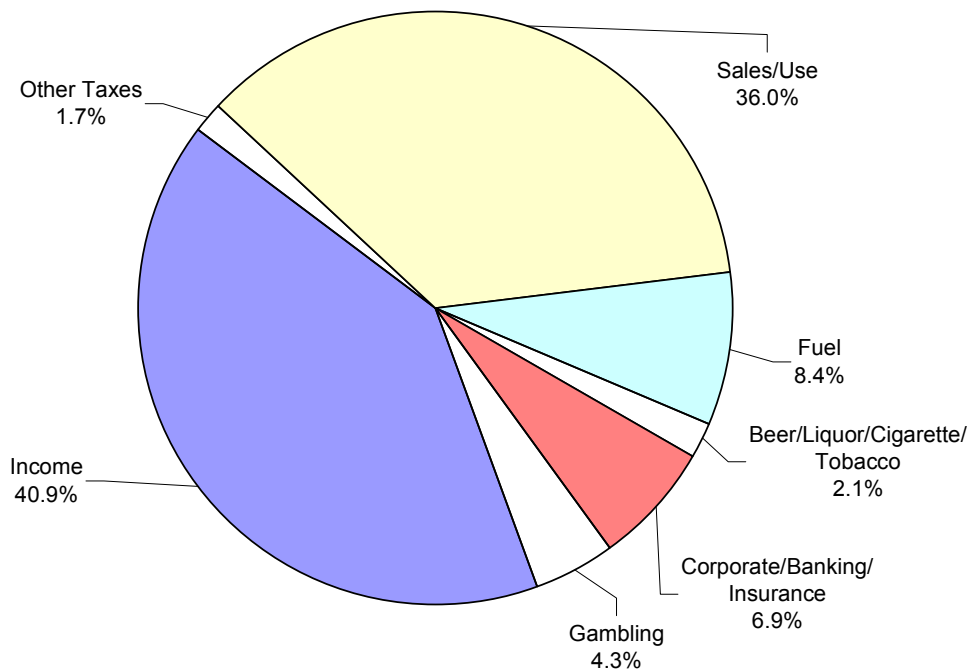
The average reading for Iowa non-farm employment over the 12 months ending March 2007 is 1,507,600, and net State tax receipts over the same 12 months totaled \$6.073 billion, or \$4,032 per non-farm job. This is \$243 (6.4%) higher than the per job average for June 2005. Over that same time period, inflation (CPI-U) increased 5.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 0.5% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



**Net State Tax Revenue - Twelve Months Ending April 2007**  
**Net Revenue = \$6.086 Billion**



**Net State Tax Revenue - Twelve Months Ending April 2006**  
**Net Revenue = \$5.778 Billion**



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Total Previous 12 Month Period</b>	<b>Total Most Recent 12 Month Period</b>	<b>12 Month \$ Change</b>	<b>12 Month % Change</b>	<b>Month of April 2006</b>	<b>Month of April 2007</b>	<b>April \$ Change</b>	<b>April % Change</b>
Banking	32.4	35.2	2.8	8.6%	2.7	3.0	0.3	11.1%
Beer & Liquor	19.7	20.2	0.5	2.5%	1.6	1.5	-0.1	-6.3%
Cigarette & Tobacco	96.8	107.5	10.7	11.1%	6.8	10.9	4.1	60.3%
Corporate Income	219.5	333.9	114.4	52.1%	28.3	46.2	17.9	63.3%
Fuel	486.6	443.5	-43.1	-8.9%	33.6	34.9	1.3	3.9%
Gambling	249.7	287.6	37.9	15.2%	19.8	22.8	3.0	15.2%
Individual Income	2,363.5	2,537.6	174.1	7.4%	189.2	183.1	-6.1	-3.2%
Inheritance	72.3	74.6	2.3	3.2%	4.3	5.1	0.8	18.6%
Insurance	134.4	123.8	-10.6	-7.9%	1.4	0.1	-1.3	-92.9%
Other Taxes	5.3	4.8	-0.5	-9.4%	0.4	1.0	0.6	150.0%
Real Estate Transfer	18.8	18.4	-0.4	-2.1%	1.7	1.7	0.0	0.0%
Sales/Use	2,078.9	2,099.2	20.3	1.0%	99.7	91.8	-7.9	-7.9%
<b>Total Net Taxes</b>	<b>5,777.9</b>	<b>6,086.0</b>	<b>308.1</b>	<b>5.3%</b>	<b>389.5</b>	<b>402.1</b>	<b>12.6</b>	<b>3.2%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	6,443.1	6,735.0	291.9	4.5%	498.4	517.9	19.5	3.9%
Tax Refunds	-665.1	-649.0	16.1	-2.4%	-108.7	-115.7	-7.0	6.4%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	4,810.6	5,133.9	323.3	6.7%	312.0	320.3	8.3	2.7%
Road Use Tax Fund	740.4	686.0	-54.4	-7.3%	52.3	52.2	-0.1	-0.2%
Non-GF Gambling	190.7	228.8	38.1	20.0%	19.8	22.8	3.0	15.2%
Other State Funds	36.3	37.4	1.1	3.0%	5.5	6.9	1.4	25.5%
<b>Local Option Taxes *</b>	<b>593.5</b>	<b>648.5</b>	<b>55.0</b>	<b>9.3%</b>	<b>52.0</b>	<b>62.8</b>	<b>10.8</b>	<b>20.8%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (bank) tax:** Taxes on banks (credit union tax is included here) are deposited to the State General Fund.

**Beer & liquor tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & tobacco tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate income tax:** All corporate tax is deposited to the State General Fund.

**Motor fuel tax:** All motor fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling tax:** The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual income tax:** Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance tax:** All inheritance tax is deposited to the State General Fund.

**Insurance premium tax:** All insurance premium tax is deposited to the State General Fund.

**Other taxes:** Other taxes include Brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship's fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real estate transfer tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/use tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle use tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include local option sales tax for schools, local option sales tax for local government finance, local option income tax surcharge for schools, and hotel/motel tax.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.